

No. 20230

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SOLENOID DEVICES, INC.,

Appellant,

vs.

LEDEX, INC.,

Appellee.

Appeals From the United States District Court for the
Southern District of California.

APPELLANT'S BRIEF.

SMYTH, ROSTON & PAVITT,
WILLIAM H. PAVITT, JR.,
CHARLES H. SCHWARTZ,
4262 Wilshire Boulevard,
Los Angeles, Calif. 90005,
Attorneys for Appellant.

FILED
SEP 13 1965
FRANK H. SCHMID, CLERK

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APPELLANT'S BRIEF.

A. JURISDICTIONAL STATEMENT.

Plaintiff appeals from an order of the Honorable William F. Byrne [R. 13-15], dismissing plaintiff's complaint for declaratory judgment, which order was entered on the Court's own motion before any appearance in the action by the named defendant; and further from said Court's denial [R. 43-47] of plaintiff's motion for reconsideration of such dismissal, or alternatively, for a dismissal with leave to file an amended complaint [R. 48].

The complaint averred jurisdiction of the District Court under § 2201 of the Judicial Code of the United States (Title 28, U. S. Code); that defendant owned a patent which it had asserted was infringed by cer-

tain solenoids made and sold by plaintiff and that plaintiff should take a license under said patent; that plaintiff had advised defendant that defendant's patent was invalid because the invention of the patent had been on sale more than a year before the application for the patent had been filed; but that notwithstanding such advice, defendant continued to assert its patent against plaintiff [R. 2-12].

Upon the Court's *sua sponte* dismissal before defendant's appearance in the action, plaintiff promptly moved for reconsideration of the Court's order dismissing the complaint, or alternatively, for a modification of that order to permit plaintiff to file an amended complaint [R. 16-17]. In support of its motion plaintiff filed an affidavit of counsel to which affidavit were attached certain items of correspondence which disclosed the basis for the complaint [R. 28-41], together with a memorandum discussing and applying the law to the allegations pleaded in its complaint [R. 19-26]. The Court heard oral argument on April 26, 1965 [R. 44], but on May 5, 1965 filed a memorandum of decision and order denying plaintiff's motion [R. 43-47].

Jurisdiction of this Court of Appeals over the present appeal exists by virtue of § 1291 of Title 28 of the Judicial Code of the United States. Notice of appeal was filed May 10, 1965 [R. 48].

B. STATEMENT OF THE CASE.

As averred in the complaint filed herein, as supplemented by plaintiff's motion papers, plaintiff is a California corporation doing business in the Los Angeles area [R. 2]. Since the Summer of 1963, plaintiff has been engaged in designing, engineering, manufacturing

and selling electromechanical devices, among which is a certain type of rotary solenoid [R. 3]. These rotary solenoids are called PACSOL D-C torque solenoids and serve as prime energy sources where designs call for an instantaneous snap-action rotary force [p. 2 of Ex. A, R-7]. Plaintiff has manufactured and sold a number of these rotary solenoids to plaintiff's customers who have incorporated them in their own equipments for their own use and/or resale to their own customers [R. 3]. These solenoids have operated successfully in the hands of plaintiff's customers so that plaintiff has been enjoying a valuable goodwill in its business of manufacturing and selling such solenoids [R. 3].

On September 15, 1964, the patent-in-suit issued to defendant as assignee of the alleged inventor, one Orville Vandewege, on an application filed by the latter on March 30, 1959 [R. 3; Ex. B, R. 8].

Subsequent to the issue of the said patent, defendant, an Ohio corporation having a place of business in the City of Los Angeles [R. 2], asserted to plaintiff that plaintiff's said rotary solenoid infringes defendant's said Vandewege patent, that the said patent is valid, and that plaintiff should obtain a license under said patent from defendant in order to be able to continue manufacturing and selling plaintiff's said rotary solenoids [R. 3-4, Ex. A, R. 31-32].

Plaintiff has declined to take a license and asserted invalidity of the Vandewege patent on several grounds, among which is the fact, alleged by plaintiff, that the invention of the patent was "on sale" more than one year before the said March 30, 1959 filing date of the Vandewege application which resulted in the issue of the

said patent [R. 4-5]. This would render the patent invalid under § 102(b) of 35 U.S. Code [R. 4]. Defendant is charged with having known of the fact that the invention of the Vandewege patent was on sale more than one year before the filing of the Vandewege application, but notwithstanding such knowledge caused the said application to be prosecuted in the United States Patent Office to the issue of the patent in fraud of said Patent Office and of the Public of the United States [R. 5]. Notwithstanding such advice to defendant concerning the basis for plaintiff's assertion that the Vandewege patent is invalid and defendant's knowledge that the invention was so "on sale" more than one year before the filing of the application, defendant has continued to assert the validity of its said patent to the trade, and to assert to plaintiff that plaintiff's said rotary solenoid constitutes an infringement thereof to plaintiff's damage and injury, but without bringing suit against plaintiff for such alleged infringement [R. 5-6].

The affidavit of plaintiff's counsel, submitted as a part of the papers in support of the motion for reconsideration, essentially identifies certain correspondence between the parties upon the basis of which it is asserted that an actual justiciable controversy exists as to the validity of defendant's Vandewege patent; reports on a meeting between counsel for the parties in which defendant's counsel, in effect, reasserted the validity of the patent and renewed the cross-license offer; and further reports that defendant's proposed cross-license was rejected by plaintiff [R. 28-30].

C. QUESTIONS INVOLVED IN PLAINTIFF'S APPEAL.

The questions involved in plaintiff's appeal all relate to the propriety of the *sua sponte* dismissal of the complaint by the Court below, before defendant made any appearance.

The basic question is whether the complaint avers a justiciable controversy under the Federal Declaratory Judgments Act (28 U.S.C. §§ 2201-2202) over which the District Court must accept jurisdiction.

Subsidiary questions are whether the District Court had discretion in the circumstances alleged to refuse to entertain the action, and if it did have such discretion, whether the Court abused such discretion by its order of dismissal; also whether the District Court should have granted plaintiff leave to amend its complaint to allege a controversy more to the District Court's liking.

D. SPECIFICATION OF ERRORS RELIED UPON BY PLAINTIFF.

In prosecuting this appeal, plaintiff relies upon the following errors by the District Court:

1. In dismissing the action on its own initiative;
2. In holding that the Court had discretion to refuse to entertain the action in the circumstances alleged in the complaint;
3. In holding that the complaint does not allege a controversy as contemplated by the Declaratory Judgments Act, but is an assertion of a mere abstract or hypothetical question;

4. In holding that the allegations of the complaint show nothing more than casual disagreement between the parties, and fall far short of being a substantial controversy between parties having adverse legal interest of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.

5. To the extent that the Court does have discretion to refuse to entertain a declaratory judgment action of this character, its exercise of such discretion by dismissing the present complaint in the circumstances alleged constituted an abuse of such discretion.

6. In denying the motion for reconsideration of the Court's Order dismissing the action.

7. In dismissing the complaint without granting leave to file an amended complaint.

8. In holding the complaint must indicate the likelihood of affirmative action by defendant.

9. In holding that there is not a definite and concrete controversy touching the legal relations of parties having adverse legal interests, and

10. In exercising its discretion to deny declaratory relief on the ground that plaintiff has not been placed in such a position of insecurity as to bring it within the purpose of the relief afforded by the Declaratory Judgments Act.

E. ARGUMENT.

1. The District Court's Discretion to Refuse to Entertain a Declaratory Judgment Action Is Not Without Limitation.

While admittedly a District Court does have discretion in deciding whether or not to exercise jurisdiction in an action for declaratory relief, it has been stated that:

"* * * this is a legal discretion which must not be exercised arbitrarily but rather in accordance with fixed principles of law. (Citing cases) * * *".

Crosley Corp. v. Westinghouse El. & Mfg. Co.,
130 F. 2d 474, 475 (C.C.A. 3, 1942).

The limitation on the District Court's "discretion" in declaratory judgment actions has been ably explained in the opinion of Judge Haney for this Court of Appeals in *Delno v. Market St. Ry. Co.*, 124 F. 2d 965 (C.C.A. 9, 1942). Although the District Court's dismissal of the declaratory judgment suit was held to be proper because certain parties having interest in the matter were not before the Court, after discussing and criticizing the use of the word "discretion" by various authorities, Judge Haney stated:

"Should declaratory relief be granted in the instant case? That question really involves two questions: (1) Is this the kind of case intended to be covered by the remedy of declaratory actions: and (2) do the facts substantiate appellant's claim to relief? The first question may be briefly referred to as the propriety of granting the relief, and the second as the merits.

“Regarding the propriety of granting the relief, the federal act merely authorizes declaration of rights and other legal relations ‘whether or not further relief is or could be prayed.’ Declaratory relief should not be refused merely because there is another adequate remedy, Federal Rules of Civil Procedure, Rule 57, available to appellant. In Borchart, *Declaratory Judgments*, 2d Ed., 299, it is said: ‘The two principal criteria guiding the policy in favor of rendering declaratory judgments are (1) when the judgment will serve a useful purpose in clarifying and settling the legal relations in issue, and (2) when it will terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceeding. It follows that when neither of these results can be accomplished, the court should decline to render the declaration prayed.’ ” (124 F. 2d 965, 968).

In *Sani-Top North American Aviation, Inc.*, 261 F. 2d 343 (C.A. 9, 1958), this Court of Appeals had occasion to consider a dismissal of a patent declaratory judgment suit by his Honor Judge Clarke in a “*per curium*” opinion by which such dismissal was reversed, and stated:

“It may be assumed that the trial court was not using the word ‘jurisdiction’ in the sense of naked power. If the case had been tried upon the complaint, one may assume that a judgment thereon would be valid against collateral attack. It may have meant that it was satisfied the case was one not meeting proper standards for a declaratory judgment suit; that is, on the basis of the statute and decisions a trial would not be properly permissible,

or it could have had in mind its discretion to hear controversies or not hear them which are implicit in the word 'may' in the federal declaratory judgments act. See 28 U.S.C.A. § 2201. This 'may' does not mean 'shall', but the discretion must be reasonably exercised. It follows the traditional equity concepts." (261 F. 2d 343, 344).

2. The Authorities, Since the Enactment of the Federal Declaratory Judgment Act, Have Developed Useful Standards for Determining Whether a District Court's Exercise of Discretion in Refusing to Entertain a Patent Declaratory Judgment Suit Is Reasonable.
- A. The Court's Discretion Should Be Liberally Exercised to Effect the Purpose of the Declaratory Judgment Act.

This statement is made in Volume 6 of *Moore's Federal Practice* (2d Ed.), at page 3030 upon the basis of the cases cited in note 11. Let us consider then the purpose of the statute as it is applicable to patent cases.

In his opinion for the Court of Appeals for the Third Circuit in *Dewey & Almy Chemical Co. v. American Anode*, 137 F. 2d 68 (C.C.A. 3, 1943), Judge Magruder statd:

"Prior to the passage of the Declaratory Judgment Act, the patentee was in a position to make oppressive use of his asserted monopoly while carefully avoiding the test of litigation with an alleged infringer. See Borchard, *Declaratory Judgments* (2d ed.) p. 803; *Treemond Co. v. Schering Corp.*, 3 Cir., 1941, 122 F.2d 702, 703, 704. Further, the

patentee might, in his own good time, sue the alleged infringer for an accounting, after large damages on account of a possible infringement had accrued. The alleged infringer could not take the initiative in litigation to challenge the validity or scope of the patent.

In providing the remedy of a declaratory judgment it was the Congressional intent 'to avoid accrual of avoidable damages to one not certain of his rights and to afford him an early adjudication without waiting until his adversary should see fit to begin suit, after damage had accrued.' *E. Edelman & Co. v. Triple-A Specialty Co.*, 7 Cir., 1937, 88 F.2d 852, 854. This court has emphasized that the Act should have a liberal interpretation, bearing in mind its remedial character and the legislative purpose. *Alfred Hofmann, Inc., v. Knitting Machines Corp.*, 3 Cir., 1941, 123 F.2d 458, 460; *Tremond Co. v. Schering Corp.*, supra, 122 F.2d at page 703." (137 F. 2d 68, 69, 70).

- B. Discretion Should Not Be Exercised to Refuse to Entertain a Declaratory Judgment Action Where There Is an "Actual Controversy" Between a Patentee and a Prospective Defendant Respecting the Validity, or Infringement by the Prospective Defendant, of a Patent.**

For the District Court to obtain jurisdiction under the United States Constitution and the Act itself, there must, of course, be an "actual controversy".

See:

Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 57 S. Ct. 461.

What constitutes such an “actual controversy” in a patent case is discussed by Professor Moore as follows:

“* * * It is apparent that a ‘case or controversy’ is presented in the traditional patent action—where the patentee sues an alleged infringer for damages, or for an injunction and incidental relief. It is equally evident that the justiciable nature of the action has not altered merely because the action is brought by the prospective defendant. The controversy is precisely the same. The action against the patentee may present itself in various forms. The party seeking the declaration of invalidity or non-infringement of defendant’s patent may have already produced the accused article; or he may only have made active preparation for such production; or he may merely have been considering the advisability of commencing production. In the last situation he probably lacks standing to sue on the theory that his interest is not sufficiently immediate or real to warrant judicial interference. A judgment rendered in such a case would be largely in the nature of an advisory decree. But where the party seeking the declaration has taken active steps toward the production of the questionable article, then his interest is a real one, and obviously adverse to that of defendant whose patent right may reasonably be interpreted to embrace such conduct. Unless such a party can secure an advance judicial determination of his rights much of the value of the declaratory judgment to this field is lost.”

6 Moore, Federal Practice (2d Ed), pp. 3117-3118.

The authorities have consistently held that there is the requisite "case or controversy" whenever a patentee in *any* way indicates to a party or the party's "customers" that the party's product or method infringes the patentee's patent.

Thus, see, for example:

Treemond Co. v. Schering Corp., 122 F. 2d 702 (C.C.A. 3, 1941);

Technical Tape v. Minnesota Mining, 200 F. 2d 876 (C.A. 2, 1952);

Dewey & Almy Chemical Co. v. American Anode, 137 F. 2d 68 (C.C.A. 3, 1943) cert. den. 320 U.S. 761;

Smith-Corona Marchant v. American Photocopy, 215 F. Supp. 348 (S.D. N.Y. 1962);

E. W. Bliss Company v. The Cold Metal Products Company, 137 F. Supp. 676 (N.D. Ohio, 1955);

Temp-Resisto Corp. v. Glott, 18 F.R.D. 148 (D. N.J. 1955);

Midway Knitting Mills v. Sanson Hosiery Mills, 108 F. Supp. 5 (E.D. Pa. 1952);

General Electric Co. v. Refrigeration Patents Corp., 65 F. Supp. 75 (W.D. N.Y. 1946);

F. X. Hooper Co. v. Samuel M. Langston Co., 56 F. Supp. 577 (D. N.J. 1944).

C. Discretion May Be Exercised to Refuse to Entertain a Patent Declaratory Judgment Suit Where the Subject Matter Is Being Adjudicated in Another Forum.

Occasionally it will be found that the patentee will sue a party's customer in one District Court and this party will seek declaratory judgment in another. This type of situation obtained in *Kerotest Mfg. Co. v. C-O-Two Fire Equipment Co.*, 342 U.S. 180, 72 S. Ct. 219, and caused the Supreme Court to allude to the necessity of leaving "an ample degree of discretion, appropriate for disciplined and experienced judges" to the lower courts (342 U.S. 180, 183-184).

3. The District Court's Sua Sponte Dismissal of the Complaint in the Present Action Constituted an Abuse of Such Discretion as the Court Could Exercise in Patent Declaratory Judgment Cases.

In the case at Bar there is no question concerning plaintiff's standing to sue. Plaintiff alleges, in effect, that it has been making and selling the rotary solenoids, described in Exhibit A to the complaint, since the Summer of 1963, and has developed a goodwill in this business [R. 3]. There is, thus, no problem about plaintiff's seeking an advisory opinion in order to embark upon some manufacturing venture. Plaintiff has a genuine business interest which it seeks to protect by obtaining a declaratory judgment concerning its right to continue the same without interference from defendant through the latter's assertion of rights under its patent.

Nor is there any equivocation in the complaint about whether plaintiff has been charged with infringement by the defendant patent owner, as there was in cases

like the *Treemond Co. v. Schering Corp.*, *supra*, p. 12, and *General Electric Co. v. Refrigeration Pats. Corp.*, *supra*, p. 12.

In its complaint plaintiff has alleged:

“8. Subsequent to the issue of said Letters Patent No. 3,148,552, defendant has asserted to plaintiff that plaintiff’s said rotary solenoid infringes said Letters Patent, that the same is valid and enforceable and that plaintiff should obtain a license under said Letters Patent in order to be able to continue manufacturing and selling its said rotary solenoid.” [R. 3-4].

Further:

“* * * defendant has continued to assert the validity of said Letters Patent to plaintiff and to the trade, and continues to assert that plaintiff’s said rotary solenoid constitutes an infringement of said Letters Patent, to plaintiff’s damage and injury, but without bringing suit against plaintiff for such alleged infringement of said Letters Patent.” [R. 6].

Nor is there any question whether, as a matter of wise judicial discretion, the controversy should be left for adjudication in another forum, as in *Kerotest v. C-O-Two Mfg. Co.*, *supra*, p. 13. Defendant is here specifically alleged never to have brought any suit against plaintiff for infringement of the patent in question [R. 6].

Nor is the present a case where an attempt is being made to have plaintiff’s rights adjudicated not only in respect of defendant, but in respect of other persons not before the Court, as was the situation in *Delno v. Market St. Ry. Co.*, *supra*, p. 7. Plaintiff is alleged

to be making rotary solenoids which defendant is alleged to have charged infringes defendant's Vandewege patent [R. 3-4, 6]. Plaintiff and defendant are the only two parties concerned in this dispute concerning the validity of that patent for certain stated reasons [R. 3-6]. This is a traditional patent declaratory judgment case.

On what basis, then, has the District Court predicated its exercise of discretion not to entertain the present complaint? The District Court's remarks require careful analysis. In his Honor's original order dismissing action, Judge Byrne stated:

"(4) the claim, as alleged in the complaint, does not present the usual case involving a controversy arising out of business activities between the parties or the construction of agreements between them;

"(5) plaintiff's allegation that, "Notwithstanding plaintiff's advice to defendant concerning the basis for plaintiff's assertion that the said Letters Patent is invalid . . . defendant has continued to assert the validity of said Letters Patent," does not allege a "controversy" such as contemplated by the Declaratory Judgments Act, but is an assertion of a mere abstract or hypothetical question;

"(6) the allegations of the complaint show nothing more than casual disagreement between the parties, and fall far short of being a substantial controversy between parties having adverse legal interests of sufficient immediacy and reality to warrant the issuance of a declaratory judgment; (see *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-242;"

In denying plaintiff's motion for reconsideration his Honor further stated:

"The function of a declaratory judgment in patent cases is to allow a manufacturer to bring about a judicial determination of his right to use a certain process or produce a certain item when faced with the existence of a patent on a similar item or process, and is damaged or threatened with damage by affirmative acts of the patentee. A typical instance for the use of the Declaratory Judgment Act in patent cases is where the patentee harasses the manufacturer or his customers by circulating infringement charges throughout the trade and by threatening the manufacturer with legal action. There is a complete absence of any such activities in the instant case. Although the plaintiff and the defendant have disagreed as to the validity of the patent, there is nothing to indicate the likelihood of any affirmative action being taken by defendant. As stated in *Thermo Plastics Corp. v. International Pulverizing Corp.*, 42 F. Supp. 408, 410 (D.N.J. 1941);

'Certainly no holder of a patent should be put to the expense of defending a suit by another person or sundry persons under the Declaratory Judgment Act . . . unless that person or persons is or may be damaged by affirmative acts of the patent holder.'

"The controversy from which this action arises is shown by the correspondence between Gerald Leland, president of defendant corporation, and Milton Miner, president of Trident Industries, a corporation which owns 80% of the stock of plaintiff

corporation. (Copies of these letters were verified by the affidavit of plaintiff's attorney and were filed in support of plaintiff's motion for reconsideration of the order dismissing the complaint.) The letter dated November 5, 1964, from Leland to Miner¹ indicates that the claim of infringement arose during negotiations for the sale of the assets of plaintiff corporation to defendant corporation; defendant corporation was not willing to pay the price asked, partly because in its view the rotary solenoid produced by plaintiff infringed on a patent of defendant. It is true that in the same letter Leland, for the defendant, states:

'At this point, it looks as though we should discuss possible license agreements. We would be willing to negotiate a license agreement on some reasonable royalty or a cross-license . . . It would seem to me that this is almost a necessity for you in order to get Solenoid Devices into a marketable position if you do, indeed, plan to spin it off.'

This statement might be interpreted as an implicit threat of affirmative action by defendant, but in the light of the absence of more typical facts indicating the existence of a controversy—such as notice of infringement to plaintiff's customers or to

¹"That the letter of Nov. 5, 1964, constitutes the sole basis for plaintiff's allegation in its complaint that defendant has claimed infringement is indicated by plaintiff's failure to produce any other such evidence in support of his motion requesting the court to reconsider its order dismissing the action. Plaintiff has, alternatively, moved to amend the complaint to state an actual controversy, but it asks leave only to delete any language the court finds inimicable to the entertainment of the action; from the reasoning below it can be seen that plaintiff could not cure the defects of this action by deleting language from the complaint."

the trade in general—this court is of the opinion that plaintiff has shown only a casual business disagreement between the parties, arising during the course of negotiations between the parties for the purchase by defendant of the assets of the plaintiff. This is not a ‘definite and concrete’ controversy ‘touching the legal relations of parties having adverse legal interests’ such as referred to by the Supreme Court in *Aetna, supra*.

“Assuming that the dispute between the parties which gave rise to the ‘sizeable gap between (defendant’s) evaluation of Solenoid Devices, Inc. and (plaintiff’s)’ (see letter of Nov. 5, 1964) could be denominated a ‘controversy’, the court exercises its discretion to deny declaratory relief on the ground that plaintiff here has not been placed in such a position of insecurity as to bring it within the purpose of the relief afforded by the Declaratory Judgment Act.”

Plaintiff submits that the complaint does not, as the District Court first ruled, allege “a mere abstract or hypothetical question” or “nothing more than casual disagreement between the parties” which falls “far short of being a substantial controversy between the parties having adverse legal interests of sufficient immediacy and reality to warrant the issue of a declaratory judgment.” [R. 14]. By defendant’s unequivocal charge of infringement*, it has placed a cloud upon plaintiff’s business

*In defendants’ letter, Exhibit A to the Pavitt affidavit, defendant stated:

“To summarize, it appears that there is a sizable gap between our evaluation of Solenoid Devices Inc. and yours. Unless this gap can be narrowed considerably, we are not interested in acquisition. Solenoid Devices Inc. is infringing on

of making and selling its rotary solenoids—a cloud which can affect the extent of plaintiff's continued operation of this business as well as the value of that business in any negotiation for its sale. That such a sale has been contemplated by plaintiff and that the value of plaintiff's said business is diminished at least in the eyes of defendant by its claim of infringement by plaintiff's rotary solenoid clearly appears from defendant's letter, Exhibit A [R. 31-32].

In any negotiation with others who might be interested in acquiring plaintiff's business, good business ethics require that plaintiff advise such prospective purchasers of defendant's assertion of infringement of its Vandewege patent. This has been done on one occasion since the record was made in this case. Obviously such information adversely affects the prospective purchaser's appraisal of the value of the plaintiff's business. Who wants to buy a probable patent infringement lawsuit?

With respect to Judge Byrne's supplemental reasoning quoted *supra*, pp. 16-18, to support his dismissal of the complaint, plaintiff submits that it has never been a

claims of a patent which Ledex owns. Your patent attorney advises you that the patent can be invalidated because of the 12 month statutory bar, and we say that we have sufficient evidence to show that our filing date was well within the 12 month period. It appears to me that the burden of proof is on Solenoid Devices and that in the meantime, we own the patent and are confident of its validity.

At this point, it looks as though we should discuss possible license agreements. We would be willing to negotiate a license agreement on some reasonable royalty or a cross-license of Vandewege patent 3,148,552 in exchange for Straub patent 2,989,871. It would seem to me that this is almost a necessity for you in order to get Solenoid Devices into a marketable position if you do, indeed, plan to spin it off." [R. 31-32].

requirement to support a declaratory judgment action in a patent case, that plaintiff must aver and show harrassment of "the manufacturer or his customers by circulating infringement charges throughout the trade and by threatening the manufacturer with legal action." This type of conduct, if done with malice, constituted actionable unfair competition even before the enactment of the Federal Declaratory Judgments Act.

See, for example, the discussion in *Eldridge v. So. Handkerchief Mfg. Co.*, 23 F. Supp. 179 (W.D.S.C., 1938).

Under the Declaratory Judgment Act it is sufficient to show that the patentee has "charged" infringement by the declaratory judgment plaintiff, and, in this connection, the courts have been very liberal in finding a "charge" from various circumstances.

See:

6 *Moore's Federal Practice*, Sec. 57.20 pp. 3118-3120.

Also the cases cited *supra* page 12.

In the *Thermo Plastics Corp.* case, *supra*, p. 16, cited and quoted from in Judge Byrne's memorandum, the defendant denied by affidavits that it had charged infringement. The Court there found that defendant was only investigating, not asserting infringement of its patent. In its opinion the Court quoted from Judge Clark's opinion in *Tremond Co. v. Schering, Corp.*, *supra*, p. 12, who in turn was quoting from *Borchard, Declaratory Judgments*, 2nd Ed. 1941, p. 807; as follows:

"And yet, it seems best to limit declaratory relief for the infringer to cases in which an ad-

versary claim has been made against him, though it may, it is believed, apply to an article not yet manufactured but only about to be manufactured. This requirement present in practically all the adjudicated cases, refutes the fear that patentees might be harassed by prospective infringers and be obliged continually to defend their patents. The fact that a patentee's claim of infringement is a condition precedent of this type of action places the matter of adjudication of the patent within the control of the patentee, for, if he wishes to avoid adjudication, he can refrain from making charges of infringement. But having made the charge, he then exposes himself to adjudication. In other words, the mere existence of the patent is not a cloud on title, enabling any apprehensive manufacturer to remove it by suit. It requires an assertion of right under the patent to place the alleged infringer in gear to join issue and challenge the title. 122 F.2d 702, 706, 42 F. Supp. 410, 411."

Professor Borchard's requirement, thus quoted with approval by the Third Circuit Court of Appeals, is a far cry from what his Honor Judge Byrne appears to be imposing, and we submit erroneously, as a condition for entertaining a declaratory judgment action. True, the mere existence and ownership of a patent is not sufficient to entitle one fearful of it to sue the patent owner. But *any* charge of infringement has always been recognized as constituting a sufficient affirmative act to support an action for declaratory judgment by the person whose product or process has been charged to infringe.

See:

Sani-Top v. North American Aviation, Inc.,
supra, p. 8;

Tremond, Co. v. Schering Corp., *supra*, p. 12
and other cases *supra*, p. 12.

Assuming, however, the Judge Byrne is correct in requiring a showing of more in the way of a threat of affirmative action by defendant to provide a basis for declaratory judgment jurisdiction, as may be seen from page 5 of the memorandum opinion [R. 47], his Honor conceded that the closing comment of defendant in its letter [Ex. A, R. 31-32] "might be interpreted as an implicit threat of affirmative action by defendant" [R. 47]. Apparently, however, the learned Judge felt that the threat should be greater and not one arising in the type of exchange between the parties which here occurred, and which his Honor labelled a "casual business disagreement between the parties, arising in the course of negotiations between the parties for the purchase by defendant of the assets of plaintiff." [R. 47].

The District Court's decision, in holding that the threat here alleged in the complaint (and supported by correspondence from defendant) is not a "definite and concrete" controversy "touching the legal relations of the parties having adverse legal interests" as are referred to in *Aetna Life Ins. Co. v. Haworth*, *supra*, p. 10, and that plaintiff "here has not been placed in such a position of insecurity as to bring it within the purpose of the relief afforded by the Declaratory Judgment Act" [R. 47], if approved by this Court, will serve to produce great uncertainty in these types of actions. This uncertainty will result in the District

Courts being burdened with motions to dismiss based upon arguments concerning the sufficiency of the defendant's threat of affirmative action against plaintiff in receipt of defendant's patent.

Since *Treemond Co. v. Schering Corp.*, *supra*, p. 12 decided by the Circuit Court of Appeals for the Third Circuit, and the numerous cases which have followed it, the law in this area has been relatively certain. Mere ownership of a patent by the defendant is no basis for a declaratory judgment suit; nor is investigation of a possible infringement. But let there occur *any* assertion, direct or indirect, by the patent owner that his patent is being infringed by a party or the party's customers in making, using or selling that party's products, and a justiciable controversy is recognized which entitled the party so charged to seek an immediate judicial determination of his liability in respect of the patent in an action for declaratory judgment.

See:

the cases cited *supra*, p. 12.

This certainty of the law has had a salutary effect among the members of the Patent Bar and the clients whom they advise. The standard advice has been: "Do not make any charge of infringement unless you are prepared to sue or be sued for declaratory judgment."

If the dismissal of the District Court in the case at Bar is sustained, this desirable certainty of the law is emasculated. Hereafter in this Circuit the Patent Bar will also be required to consider whether the patent owner is really threatening a party to the point where it appears that he is going to take affirmative action—

whatever degree of activity that may entail. However, if the patent owner is really going to sue, declaratory relief is not needed at all. The one charged with infringing simply waits until the United States Marshal appears with the summons and complaint of the patent owner.

Plaintiff submits that such a regression from the established law in patent declaratory judgment suits is not proper under the authorities, cannot be excused as a proper exercise of discretion in this type of matter, nor is warranted by any policy considerations.

Plaintiff here has had its business unequivocally threatened by defendant. Naturally, its value either to defendant or any other prospective purchaser has been diminished. Whether the infringement charge arises in the course of a business negotiation is quite immaterial.* The effect upon plaintiff has been real, and, under the long line of authorities cited *supra*, page 12, plaintiff should be entitled to have the controversy arising from that charge adjudicated by the only Court which has jurisdiction over the same.

Plaintiff submits that, for the reasons hereinabove set forth, and upon the authorities cited and discussed, the District Court's order dismissing plaintiff's complaint should be reversed.

Dated September 10, 1965.

Respectfully submitted,

SMYTH, ROSTON & PAVITT,
WILLIAM H. PAVITT, JR.,
CHARLES H. SCHWARTZ,

Attorneys for Appellant.

*See: Judge Augustus Hand's remarks in *Technical Tape Corp. v. Minnesota Mining & Manufacturing Co.*, *supra*, p. 12 at p. 878.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

WILLIAM H. PAVITT, JR.

